



USAID
FROM THE AMERICAN PEOPLE

ENHANCING SME PERFORMANCE

QUARTERLY REPORT, SEPTEMBER 30, 2005

September 2005

This publication was produced for review by the United States Agency for International Development. It was prepared by the DAI/Nathan Group, LLC.

ENHANCING SME PERFORMANCE

QUARTERLY REPORT, SEPTEMBER 2005

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Contractor contact information

James Packard Winkler, Chief of Party
DAI-Nathan Group LLC – Croatia
Florijana Andrašeca 14
Zagreb, Croatia
Tel: 385-1-384-5240
Fax: 385-1-384-5241
E-mail: jim_winkler@ph.com.hr

A. Table Of Contents

1.	Project Purpose And Approach	1
2.	Cross-cutting Results	2
3.	Significant Events	5
3.1.	Marketing	5
3.2.	Business Development	5
3.3.	Financial Services	6
3.4.	Investment facilitation	7
3.5.	Project Management	8
4.	Status of Work Plan Activities	11
4.1.	Marketing	11
4.2.	Business Services	11
4.3.	Financial Services	11
4.4.	Investment facilitation	12
5.	Performance and Mid-stream corrections.....	12
6.	Status of Budget Expenditures	12
7.	List of Activities Planned for Next Quarter	13
7.1.	Cross-Cutting	13
7.2.	Marketing	13
7.3.	Business Services	13
7.4.	Financial Services	14
7.5.	Investment facilitation	14
	ANNEX A: List of Reports & Deliverables	16

B. List of Tables

Tables

Table 1: SUMMARY TABLE OF ESP RESULTS.....	2
Table 2. ESP FINANCIAL RESULTS	13
Table 3: ESP'S DELIVERABLES AND REPORTS.....	16

C. Abbreviations

ACE	Agribusiness Competitiveness Enhancement (Project)
AMC	Association of Management Consultants
B&B	Bed and Breakfast
CIPO	Croatian Investment Promotion Outreach (Alliance)
CSERP	Croatian Social and Economic Recovery Project
EBRD	European Bank for Reconstruction and Development
ESP	Enhancing SME Performance
EU	European Union
FDI	Foreign Direct Investment
FINA	Finance Agency
GTZ	German Development Agency
HAMAG	Croatian SME Promotion Agency
HBOR	Croatian Bank for Reconstruction and Development
HPB	Hrvatska poštanska banka
IDA	Istrian Development Agency
IT	Information Technology
LAN	Local Area Network
LEDA	Local Economic Development Agency
M&E	Monitoring and Evaluation
MIGA	Multilateral International Guarantee Agency
MoE	Ministry of Economy
NASfH	National Association of Small and Family-run Hotels
PBZ	Privredna Banka Zagreb
PRIMA	Entrepreneurship Center, Split
ROP	Regional Operating Programme
SME	Small and Medium Enterprise
TAPA	Technical Assistance Partnership Agreement
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development

D. Executive Summary

This quarterly report for the period July 1 to September 30, 2005, coincides with the completion of ESP's first year. ESP is meeting its performance targets, and has established a network of partnerships with over 30 organizations across the country that creates a strong presence for USAID to expand services to SMEs and generate innovative changes in the marketplace.

The project has met almost all performance targets during the first year, demonstrating bottom line improvements to 763 companies in terms of growth in sales, revenues, and jobs. Tangible improvements at the company level are critical to establish credibility for the project and to expand higher value training, consulting, financial and other services to SMEs through our partners. ESP has exceeded expectations in facilitating Foreign Direct Investment with \$51.6 million invested by two Italian investors. Financial services brokered by ESP have also exceeded first year targets: 409 SMEs received new credit through commercial banks, exceeding the target of 200 firms, and more companies are using factoring and non-bank services than expected. ESP provided a broad range of high quality training courses to 719 entrepreneurs across the country. The training service differentiated ESP's quality of services and established an identity for the project in the marketplace, and developed strong relationships with business development centers and local and regional development agencies in all regions.

ESP is building a solid foundation of achievements and partnerships to achieve higher impact in terms of reaching 4,000 SMEs and creating 20,000 jobs. Delivering bottom line improvements to these enterprises will create the market position for ESP to have greater influence in upgrading industries and improving the business environment. There are signs that ESP is already stimulating increased competitiveness within the marketplace. ESP's work with 6 commercial banks and financial institutions has generated demand for credit rating and deposit mining services from other banks. Whereas ESP had difficulty getting into banks a year ago, ESP is now receiving requests for assistance. The preparations to participate in the Anuga Trade Fair in Cologne, Germany, in October have prompted more companies to request assistance for food safety certification, improving packaging and labeling and upgrading product quality. A demand survey of 17 partner organizations in July and August across Croatia indicated a significant increase in demand for ESP services to assist SMEs.

ESP's network of partners, including business associations, financial institutions, local and regional development agencies, economic zones, and selected government agencies, is critical to delivering services to a large number of SMEs. The project's ability to build capacity in these partners as services are delivered to SMEs is a key part of the sustainability of improved economic and business performance after the project closes in 2008.

1. PROJECT PURPOSE AND APPROACH

Enhancing Small and Medium Enterprise Performance (ESP)—also called *Poduzetna Hrvatska*—is a private sector development project funded by the United States Agency for International Development (USAID) and implemented by the DAI/Nathan Group, a joint venture.

ESP's primary objective is job creation among 4,000 small and medium enterprises (SMEs). In three-and-half years, the project must generate at least 20,000 jobs through increases in enterprise performance—measured in terms of business sales and exports, as well as various forms of financing, including loans, leases, equity participation and foreign investment. Owing to the magnitude of the task, ESP operates largely through a network of organizational partners and service providers. ESP works directly with the SMEs themselves in some cases to pilot new business services, work with lead companies in key industries, and demonstrate success so that it can be replicated by other SMEs. In all instances, ESP minimizes direct financial support to organizations and enterprises, concentrating instead on the brokering of information, methodologies and technologies that enhance SME performance. In some cases, ESP designs cost-sharing activities to stimulate commercial value that will quickly become viable in the marketplace without further subsidy. ESP's main project office is located in Zagreb; three regional offices in Osijek, Split and Pula assure nation-wide coverage of SMEs, including in areas of special state concern.

ESP's staff, products and services are grouped into four functional areas: marketing, business development, SME access to finance, and investment facilitation. The project also focuses on growth industries, including specialty foods, tourism, small boat-building, manufacturing of metals and selected products, and information and communications technology. ESP's standard tools consist of training, targeted mentoring, publications and referral systems. On occasion, ESP makes use of special events—such as trade fairs—that build off the standard tools of the project.

- The marketing team focuses on improving new market access of Croatian products through assistance with market research, branding, product development and export readiness. The team works largely with individual SMEs and groups of SMEs with common problems.
- The business services team focuses on deepening the Croatian market for business and consulting services. The team concentrates on improving the quality and quantity of SME service provision through apex or national organizations, through regional and local partners, and through private suppliers. The business development team also works with individual and clusters to improve business operations through the introduction of new business models and practices.
- The financial services team seeks to improve SME access to finance in Croatia. The team works with financial institutions, business service providers and on occasion SMEs to re-design existing financial products, develop new ones and develop appropriate business plans. The team also helps financial institutions to upgrade their capacity to handle SME financing through advice on credit analysis based on cash flow, credit scoring, streamlined credit approval processes, and the means for identifying good loan clients and diversifying sources of support for loans. The team has established strong working relationships with different financial institutions willing to receive and act on SME referrals from project staff.
- Investment facilitation team concentrates on regional economic development and growth largely through investment attraction and facilitation. Main project partners consist of local and regional economic development agencies, business and industrial parks, technology parks. The team works closely with the Croatian Investment Promotion Alliance (CIPO), the Croatian IPA and the European Investor Outreach program (EIOP)

in Vienna to enhance inward investment from the Western European business community. The creation of the Croatian Export and Investment Promotion Agency (CEIPA) is another possible partner for ESP to support FDI promotion at the national level.

2. CROSS-CUTTING RESULTS

Though structured along thematic lines, with four directors managing discrete portfolios, ESP is a matrix project whose results cut across all substantive areas. Consequentially, much of ESP's work and all of its results entail cross-fertilization, synergies and collaborative teamwork. Table 1 highlights the key results for the quarter.

Table 1: SUMMARY TABLE OF ESP RESULTS

<i>No.</i>	<i>Performance Indicator</i>	<i>Target LOP</i>	<i>Target 2005</i>	<i>Actual Results as of September 30</i>
1	Total number of SMEs assisted	4,000	600	763
2	Number of jobs created among assisted SMEs	20,000	2,000	estimated 2869
3	Increase in total revenue of assisted SMEs	\$150 M	\$25 M	\$23.25 Mil among direct assists
4	Increase in export revenue of assisted SMEs	\$20 M	\$3.3 M	\$4.37 Mil among direct assists
5	Value of foreign direct investment (FDI)	\$80 M	\$ 6 M	\$51.6 M
6	Number of SMEs using new bank financing	2,200	200	409
7	Number of SMEs using new non-bank financing	65	5	19
8	Number of people trained in enterprise growth areas	800	200	719 (47% female)

Reporting on SME revenues—whether from overall sales or from exports—is tricky owing to the lags in the availability of financial data from SMEs. Most SMEs produce financial statements (even internal ones for company review) biannually, very close to the Government's deadline for submission (specifically April for the 12-month period ending in December of the previous year, and in July for the 6-month period ending in June of the same year). A further lag of three to five weeks occurs as the Government verifies and consolidates the information for official use. This means that ESP can typically report on revenue growth (by all assisted SMES) in June and in September. Through cooperation with ZAPI, ESP's contractor for collection of monitoring and evaluation data, the ESP team obtained projections for growth of revenues, exports and the number of employees, based on a number of factors and financial and economic indicators, including growth in this quarter of the previous year, market trends in the first eight months of the year, the success of the tourist season, etc. In April or May 2006, when companies' financial statements are available, the figures submitted to ESP by ZAPI will be compared to the actual results.

Building capacity of partner organizations—such as associations, commercial banks, economic zones, and business service providers—to provide financial and non-financial services to 4,000 SMEs is a major focus of the project. All project components invested considerable effort in working with partners.

- a. FDI conference for regional partners: Business Services set-up a conference attended by partners and training was delivered by FDI;
- b. With ESP support, the Technology Development Center in Slavonski Brod participated in the EMPEX in Warsaw.
- c. ESP assisted the Small Hotels Association through a consultancy to survey independent operators and prepare and launch a manual on registration of tourist accommodations and hotels. Survey of 300 informal accommodations along the Croatian coast ascertained the level of interest in the conversion to formal B&Bs or pensions was completed. A conference organized by the Association will present the results to government, donor and private sector leaders to generate support for registration of these accommodations, including streamlined procedures and credit services. There is the potential to create 750 jobs in the tourism sector.
- d. Services of Business Park Bjelovar have been upgraded through training in areas of Development Planning, Investment facilitation, EU accession, Marketing/branding, Export readiness, New market entry and Business planning. As a result of improved services from this partner, 28 SMEs were assisted.
- e. The final stage of consulting for HAMAG was completed, and HAMAG's voucher program for SME consulting was operationalized and the initial vouchers are expected to be launched in October.
- f. Through its partner financial institutions, ESP indirectly assisted 191 SMEs during the quarter ended September 30, 2005: HBOR credit scorecards generated credit scored loans for 33 SMEs; VABA generated credit scored loans for 27 SMEs; HAMAG approved 39 guarantees for bank loans during the quarter; and PBZ reported 92 new loans under its fast loans program for SMEs, using criteria refined by ESP.
- g. The FDI benchmarking assessment for 6 ESP partners involved in FDI (regional agencies and zones) helped them build and improve their investment management/attraction/facilitation abilities. According to the results, almost all partners lack a marketing plan for zone development and the FDI team will work on improving marketing plans in the next year. ESP assisted two zones, Donji Miholjac and Otok, in developing high quality promotion materials and improved investor-related procedures. ESP organized one investment outreach event for the Slavonia region and 2 workshops on how to prepare for FDI.
- h. FDI facilitation services supported new investor inquiries and on-site visits: 2 match-making inquiries from German companies (automotive components and sewage system) and one investor inquiry in food production that could generate up to 150 new jobs. The first round of site visits with Soritz, the Austrian investor that wants to source vegetable production for the EU market, took place in July 2005. Followup visits are planned. This investment has the potential to generate considerable employment in the agricultural sector.
- i. Lastly, 50 SMEs participated in ESP's summer training program, which covered 15 topics, 60 percent of which were co-branded with ESP partners:
 - Three courses fully developed by ESP and taught by practitioners (on strategic planning, operations management, and packaging & labeling);

- Five courses developed and offered directly by ESP staff (on FDI facilitation, investor services, interviewing loan applicants, accessing financing, and establishing profit centers);

ESP conducted a survey of partner organizations to assess demand for ESP services during July and August. The survey results provided inputs from partners for training courses and other services to be delivered from October 2005 to Spring 2006.

All these courses provide concrete, practical advice to SMEs that points them to appropriate, reasonable measures for capturing near-term business growth. As such, the courses proved to be popular among participants. More than 20 percent attended more than one course. After attending the course on operations management, one company (SIGMA, profiled above) stated that its operations would be currently optimal had it learned the importance of balanced, controlled growth three years ago.

ESP provides a limited number of services directly to SMEs. These activities have focused on improving bottom line performance of firms. Examples include: ESP staff provided financial assistance to assess a small business's financial structure and needs in order to make referrals to financial institutions for bank or non-bank financing; ESP assisted companies to prepare for the Anuga trade fair in Germany in October, assisting firms to improve packaging and labeling, prepare for food safety certification, and acquire export licenses; ESP worked with the Association of Management Consultants to respond to enterprise demand for consulting services to improve management and organization, develop improved product quality, and upgrade operations.

Several success stories exemplify the impact of ESP assistance:

1. **Gumiimpex:** When Mr. Rudolf Kiric, owner and CEO of rubber tire manufacturing company Gumiimpex, decided to expand his business into the area of rubber waste processing, he found that the management of two separate businesses was too big a challenge to undertake without external help. Consequently, Mr Kiric requested assistance from ESP, also known as Poduzetna Hrvatska in the local market, which assisted him to define the scope of consulting services required and introduced him to consultants. The main task given to the consultants was to implement business operations in compliance with ISO 9001 and 14001 standards. Poduzetna Hrvatska supplemented this assistance by introducing the company to a range of Government incentives for the introduction of quality standards and application of environmentally-friendly technology. The assistance has paid off. The company has expanded its business and a new rubber waste processing company, GRP Ltd, has been formed resulting in the creation of 130 new jobs in one of the most dynamic business zones in northern Croatia, the Varazdin Free Zone.
2. **VABA Banka,** a small regional bank headquartered in Varaždin, became a partner of ESP in January 2005. ESP was keen to assist VABA since it has been in the process of reorganizing and restructuring following the current owners' acquisition of the bank, formerly known as Brodsko Posavska Banka. The Financial Services component of ESP introduced credit scoring to VABA and helped the bank refine a scorecard for commercial loans to SMEs and micro-enterprises over the next several months. Credit scoring enables a bank to quickly, efficiently and yet prudently process small loans by partially automating the loan approval process. After evaluation, testing and refinement, which was monitored and assisted by ESP staff, VABA began using the scorecard during June 2005. During the quarter ended September 30, 2005, the bank approved loans to 27 SMEs using its new scorecard. Of these, 20 were new clients. The total amount of the 27 loans granted was Kn 18.6

million (\$ 3.1 million). The loans helped the borrowing SMEs to expand their operations, such that the total number of employees working in the 27 borrowing companies increased from 2,431 as of 31 Dec. 2004 to 2,611 as of September 30, 2005, an increase of 180 jobs. VABA also is using its scorecard for credit rating purposes and to set appropriate interest rates for loans. Normally the higher the score a loan applicant receives, the lower his or her loan interest rate.

3. SIGNIFICANT EVENTS

In this quarter, ESP concentrated on strengthening relationships with existing partners. Two new TAPAs were signed and partnerships formed with the Poduzetnicki Centar Pakrac and Poduzetnicki Centar Slavonski Brod in order to assist SMEs in special areas of state concern.

The FDI team also developed a new partnership with the CARDS 2002 Project: Developing the Business and Investment Climate in Croatia and one bi-lateral investment promotion institution – the Slovenian Embassy in Croatia. However, no TAPAs were signed.

Within ESP's four thematic components, outreach and technical interventions also occurred, which either generated key results or laid the foundation for notable developments later in the year. Key events and milestones are presented below by component.

3.1. MARKETING

Important developments include the following:

- Total of 62 SMEs qualified and signed up for ANUGA. In preparation for the fair, 19 Food Producers are preparing for HACCP certification; 16 obtained temporary export licenses to Germany; 10 SMEs started ISO preparation with the assistance of Biotechnicon, ESP's activity partner for ANUGA, through ESP and ACE referrals
- Buyer Agents Orientation training designed by ESP and delivered by Agland consultants through a World Learning contract. The training was delivered to 46 participants. All but 6 out of 34 companies have established export leads with one or more of the buyer agents, and at least one broker is returning to Croatia to carry out follow-up work with a company whose product can be sold in the UK.
- Designed and delivered a specialized training for wine producers in Istria, co-organized by the Vinistra association of wine producers. The topic was packaging and labeling for wine producers and international wine markets; it was attended by 23 participants, employees and owners of many Istrian vineyards.

3.2. BUSINESS DEVELOPMENT

Key results include the following:

- Two surveys were completed:
 - Survey of partner organizations completed to assess demand for ESP services ("100 wishes"), and services program prepared for end of 2005, beginning of 2006.
 - Survey of 300 informal accommodations along the Croatian coast to ascertain level of interest in the conversion to formal B&Bs or pensions completed and presented to public, potential for 750 jobs in the tourism sector.

- 64 SME assessments conducted by ESP staff using ESP's upgraded rapid company assessment process to diagnose issues tied to capital structure, product lines, production capacity and needs in marketing, financing and business services
- 183 people from 50 SMEs trained in 7 business topics delivered through 8 courses by ESP staff and partners
- Operational policies, procedures and working documents completed for HAMAG's voucher program to support SME consulting services; initial vouchers to be launched in October
- AMC program of cost-shared consulting assignments continued, with three completed consultancies, including ARGUS, Obrt Za Proizvodnju Metalnih Konstrukcija and Parketi Požgaj, and several prospects

3.3. FINANCIAL SERVICES

During the period from July 1st to September 30th, ESP's Finance Team continued to provide direct assistance to companies needing new financing or refinancing. We are helping approximately 35 SMEs to assess their capital structures and facilitate financing arrangements with various financial institutions. Examples of companies assisted directly are as follows:

- a) HEFEST METAL d.o.o. a metal parts producer from the Zagorje region, exporting over 40% of revenues, is using an AMC consultant to prepare the feasibility study. Through one of our partner banks, HPB, we are helping to facilitate financing for a new investment that will generate about 30 new jobs. Due diligence is in progress.
- b) ESP introduced Poljoprivredno-stolarska eko zadruga, a cheese producers cooperative in Sinj that needs a new production line in order to start production, to another ESP bank partner, PBZ. We arranged for the loan to be financed directly through a HBOR program for start-ups and cooperatives and PBZ will be the conduit for the deal.
- c) German company LKT (Lausitzer Klaertechnik GmbH) with the assistance of the ESP FDI facilitation team was searching for a Croatian partner to manufacture systems for water distribution and treatment. ESP Split office and the FDI team helped LKT select Terrigena d.o.o., Trogir, as a joint venture partner, and a joint production contract was executed. Finished products will be distributed in Croatia, Bosnia and Hercegovina and Montenegro. An AMC consultant will be introduced to Terrigena to develop the feasibility study and ESP finance team will help the firm to get a loan to finance the new investment with one of our partner banks, probably PBZ.

The Finance Team's conducted training activities during the quarter to strengthen partner financial institutions, including a three-day program at the end of August on credit and sales held at Tuheljske Toplice for 19 Hrvatska Poštanska Banka (HPB) branch managers, loan officers and credit officers. The interactive course covered basic credit analysis and how to prospect for and win new clients. In addition, on July 14, ESP trained 16 HBOR loan and credit officers in the use of the credit scorecards that ESP developed with HBOR.

Lastly, in September ESP and World Learning organized a one-week study tour to the U.S. for senior HAMAG staff. HAMAG met with U.S. Small Business Administration (SBA)

officials and several banks who participate in SBA programs. The main purpose of the tour was to help HAMAG develop an expedited loan guarantee approval process for use with Croatian banks, in order to increase HAMAG's loan guarantee volume. This trip came at a critical time as HAMAG is under considerable pressure to increase its loan activity, and the agency is under new leadership with a President who seems determined to improve the organization's performance. ESP worked with the HAMAG group to develop an action plan that will bring new procedures to improve loan guarantee processes, and to develop improved partnerships with Croatian banks.

3.4. INVESTMENT FACILITATION

Highlights include the following:

- ***FDI workshop for ESP partners, Opatija, July 7 - 8***

The goal of the workshop was to help position various Croatian agencies responsible for FDI facilitation to enhance their collective performance over time. All the participants agreed that they will continue building their knowledge of FDI and their absorption capacities and for the first time, a new head of the national IPA, Zeljko Kirincic showed the Agency's determination to support local/regional partners in those activities, as well as to work with other institutions involved in investment promotion and facilitation. The participants included representatives from regional/local development agencies, entrepreneurial centers, and industrial parks, as well as HBOR, EIOP, URBAN. Padriac White and PJ Daly (FDI consultant), both formerly with the Irish Development Agency, were keynote speakers. Thirty-seven people were trained (14 female, 23 male). William Jeffers, the USAID mission director, also participated in the workshop.

- ***A half-day FDI staff training on partner diagnosis and gap analysis by PJ Daly (FDI consultant), Opatija, July 9.***

The main purpose of the training was to develop skills in staff to continue and expand the diagnosis for six partner to include other ESP partners involved in FDI and zone management at the local and regional levels. The participants of the training included the Investment Facilitation team and ESP regional managers.

- ***Workshop on how to prepare for FDI and how to present a location, Zadar, July 28.***

The workshop was organized for 8 officials from the City of Zadar, Zadar county, Croatian Chamber of Commerce and Croatian Employment branch office. Topics discussed: FDI trends and prospects, zone planning and marketing, and a development strategy in the context of the regional operational plan (ROP) revisions.

- ***Workshop on how to prepare for FDI and how to present a location, Slavonski Brod, September 6.***

The workshop was organized for 10 officials from the Chamber of Commerce, Port Authority Slavonski Brod, Free Zone Slavonski Brod, Technology Development Center Slavonski Brod, LEDA Okucani, City and County. It helped the officials to prepare for the EMPEX FDI Exhibition in Poland.

- ***FDI Outreach Event, Slavonija region, September 16 - 17***

A 2-day site visit tour organized to the City of Donji Miholjac and the Municipality of Otok in order to raise the awareness of investment opportunities in the Slavonia region. The participants were the representatives from the Italian Institute for Foreign Trade, German-Croatian Chamber of Commerce, American Chamber of Commerce, Slovenian Embassy and HBOR. The media coverage (national and local TV, radio, press) was excellent. Due to

the cooperation with ESP Project both local authorities developed multi-lingual promotion material, worked on streamlined procedures for permits and put in place transparent local incentives. As a result, one investment in agri-business valued at 1 mil Euro was generated and 9 letters of interest to invest were received.

- **Organized and facilitated USAID visit to the City of Varaždin, the Free Zone Varaždin and the Development Agency North on July 6, 05.**

Two FDI investors were also visited: BHS Corrugated (German investor into corrugating machines) that is located in the Free Zone Varaždin and Ytres (Italian investor into ladies stockings factory) in Gornji Kneginec. The USAID delegation consisted of Frederick Claps, Damir Novinic, Isabelle Detwiler, Anne P. Convery, Diane Matijas-Vengar and Marek Posard.

3.5. Project Management

The permanent COP, Jim Winkler, took up post in mid-July, and began a review and assessment of program activities, project management and staffing, and conducted meetings with USAID and partners,.

The quarterly staff retreat, held in Vodice in late September focused on future directions for the Project, the new work plan for year 2, new staffing positions, and ways to engage Partners and deliver services.

ESP achieved many of its target performance indicators in Year 1 in spite of under-spending the budget. A number of factors contributed to this situation:

- After delivering high quality training and consulting services in the first year, demand from partners has increased considerably, noted by the partner demand survey in July and August and other requests from partners; ESP will have to expand capacity at this point to respond to the demand from the partner surveys in July and August and expansion in initiatives in tourism, manufacturing, and processed foods to reach more SMEs.
- ESP replaced 20% of its staff that did not perform to project requirements during the first year.
- ESP had interim COPs from September 2004 to July 2005. These COPs were reluctant to make project commitments and expand services to adequate levels for this large project.
- The initial proposal for ESP assumed a small staff in the first year and heavy reliance on STTA and local procurement of services. ESP did not have sufficient administrative capacity to manage procurement and contracting requirements, and lacked sufficient staff to manage rapidly expanding partnerships that required different skills for program design and development.

The staffing plan and budget plan is designed to address these deficiencies by adding new positions for local and expatriate staff to deliver on higher performance targets and impact objectives in Year 2, which are considerably higher than Year 1 targets.

Staffing Plan

ESP will add key technical and administrative positions in order to manage our expanding programs.

Following are brief profiles of the new local and expatriate positions for ESP that were filled in the quarter ending September 30.

Local Staff Positions

Marketing Specialist: a local professional who can deliver training courses, direct firm level technical assistance, and manage services brokered through consultants and partners in marketing, product development, customer relationship management, and market entry strategies. This person will also assist companies in obtaining market research and product and market specific information on standards and regulations. There is considerable demand for services in the marketing area, and existing staff have been unable to engage in direct assistance due to the workload associated with the development of training programs, fielding inquiries from regional offices on markets, standards, and regulations, and the development and launch of industry initiatives in specialty foods and tourism. Siniša Bronic was selected from the pool of applicants.

Program Assistants: as ESP programs expand, program assistants will handle the many administrative issues in key programs of Marketing and Market Development, Business Services, Financial Services, and FDI Facilitation. Technical staff are increasingly burdened with administrative tasks as partners and services increase; it is more cost effective if these tasks are handled by entry level staff and professional staff can continue to manage client relationships and develop new services. The intern program will end by December 2005, and interns may apply for these and other entry level positions.

Miroslav Levanic was selected as one PA for Marketing, he is currently ESP Receptionist and has performed well in undertaking PA tasks. Zrinka Nazor was selected as a second PA for Business Development out of a large pool of candidates. Because Miroslav Levanic is an internal applicant, ESP will have to fill the vacancy for receptionist. Mirela Spreicer is proposed as the new receptionist. The position's scope has been amended to include greater responsibilities in administrative support.

Regional Staff for Zagreb: a junior professional staff for the Zagreb regional team, a position that has existed since project inception but was unfilled, to respond to demand for technical assistance to companies and partners. Other regional offices have two staff to cover the region, and ESP needs to fill this position to respond to a large program in the Zagreb region. Hana Pavlinic, currently an intern has applied for this position, and her application is favorably viewed. She can be proposed immediately, but has functionally started supporting the Zagreb team already under her internship.

Program Coordinator: a local professional to coordinate the increasing project demands for translation services, scheduling of events and activities, and monitoring, evaluating and reporting programs. ESP's Translator/TAMIS administrator is expected to be promoted to this position, which will require her replacement by another full time translator. ESP's current translation load far exceeds in house capacity to keep apace with document volume, and ESP has had quality control issues with outsourced translations. Therefore, the program coordinator will also be handling more difficult technical translations. Aleksandra Andrakovic, currently Translator/TAMIS Administrator, was proposed for this position. As she is an internal applicant, the vacancy for her current position needs to be filled by a new translator. Petra Potocnik has been proposed after an extensive testing and interview process.

Expatriate Staff

Andrew Schafernaker has been selected to fill the position of Business Development Director, and will be joining the team in early November.

Project Coordination

ESP worked effectively with other USAID and donor projects during the quarter:

- ACE and ESP collaborating on participant training programs and food safety systems to expand exports
- LGRP and ESP collaborating on FDI benchmarking to enhance zone use and management for FDI and economic growth
- CIPO Alliance, MIGA and ESP collaborating on investor site visits and investor information requirements to increase FDI

4. STATUS OF WORK PLAN ACTIVITIES

The following discussion concentrates on activities outside of the individual and group SME consulting that occurs regularly under ESP.

4.1. MARKETING

According to the work plan, this component concentrates on export sales, domestic sales and distribution channels. This quarter, the marketing team concentrated largely on overcoming constraints to exports of specialty foods.

The marketing team focused on providing technical guidance to food producers in practical ways. First, the team developed a two-part “participant training program” to address the lack of understanding among Croatian food processors of the demands of exports—including the product, volume and pricing requirements set by consumers and buyers outside of Croatia. With foreign buyers and buyer agents as trainers, the program mixed seminars with consultative labs focused on the actual products of participants. The first part of the program consisted of visits by buyers to SMEs around the country for in-depth consultations, acquisition of samples for possible placement in export markets, and possible broadening of buyer-seller relations within select SMEs. A total of 19 companies participated in this activity, about half of which also participated in the formal participant training program, held in Opatija in early July. This second part of the program consisted of three days of lectures, demonstrations, and presentations, interspersed with activities focused on the products themselves. The final participant list for the formal training comprised 46 participants from 30 SMEs, whittled down from an initial list of over 100 producers identified by ESP and ACE.

4.2. BUSINESS SERVICES

Business Services provided assistance for the Small Hotels Association for the development of a manual on hotel registration. An RFP was issued for the formation of an advisory centre that would assist prospective hoteliers in registration of their businesses and obtaining loan finance for upgrading of accommodation.

An RFP was also developed for the execution of a business survey to assess the demand for business service providers and to indicate the potential for the development of new services. It is expected that this information would be used to populate the Business Navigator web portal with details of business providers and to identify specific services programs that can be brokered by ESP from commercial services providers and through partner organizations.

A significant adjustment took place in the way in which Poduzetna Hrvatska supports its partners in the delivery of training. In the first phase, ESP funded the bulk of training and organized the training events. During the third quarter, partners were required to charge fees to participants and take on some of the marketing and organizing responsibilities in an effort to build partner capacity and ensure sustainability for future training activities. The project is still providing assistance in funding the development and delivery of course materials but is no longer covering the partner’s costs.

4.3. FINANCIAL SERVICES

During the quarter the Finance team was assisting 3 different banks with credit scoring: HBOR, VABA and HPB. A major thrust of our technical assistance efforts was to develop

several variations of scorecards, e.g. scorecards for long vs. short term loans, scorecards for start up companies and going concerns, and scorecards for craftsmen (sole proprietors) as opposed to limited liability companies. Each segment or type of loan requires somewhat different treatment. Therefore, scorecards used for those market segments or particular types of loans should have their criteria and weights adjusted appropriately. The development of various scorecards necessitated approximately fortnightly meetings over the course of the summer with HBOR and HPB in particular.

We anticipate that during the life of the Project up to several hundred SMEs will receive loans through these and other ESP assisted banks' use of credit scoring. Sixty SMEs received credit scored loans during this quarter. It is significant that most of these companies have never had access to finance previously.

4.4. INVESTMENT FACILITATION

This component concentrates currently on foreign direct investment (FDI), with ESP's engagement in domestic investment and business climate issues driven by actual FDI facilitation. This quarter entailed continued support of FDI promotion entities (in and outside of Croatia), as well as direct services to investors.

ESP is providing assistance for nine projects that will lead to \$ 34 mil of investment and 400-600 new jobs. Work with ESP partners involved in FDI by assessing their capacities for zone development, investment attraction, facilitation and management and helping them to improve will build capacity and sustainability. ESP participates in events that promote investment in Croatia, and builds a network of other institutions in support of investment.

Investor services have become the main element of the team's efforts largely but not exclusively on behalf of various FDI bodies, such as the Croatian CIPO alliance, the national IPA, and the MIGA office in Vienna, as illustrated in the examples below.

5. PERFORMANCE AND MID-STREAM CORRECTIONS

Due to APIU's determination to actively promote and facilitate inward investment in Croatia, the FDI team will develop the following activities in Y2 to support those efforts and strengthen APIU performance over time: develop and deliver FDI-related trainings for APIU staff, strengthen relationship btw APIU and ESP partners, assist with promotion materials and web content, and work on streamlined procedures for incentive approvals.

Upon request, ESP reviewed and provided comment on the new draft investment promotion law to APIU head and to the State Secretary at the Ministry of Economy.

ESP also began a more focused effort to address policy issues as targets of opportunity that improve the business environment under CLIN 2, Policy Reform. ESP launched the tax simplification study for HUP in August with a consultancy by Mark Gallagher, a Tax Expert, in response to the TAPA signed with the association. ESP negotiated a broader treatment of tax reform beyond a simple flat tax study to address tax simplification that includes tax rates, tax administration, tax allowances, and personal and corporate income tax issues.

6. STATUS OF BUDGET EXPENDITURES

Table 3 presents project expenditures, as invoiced to-date. At the end of September, ESP expenditures amounted to \$3,823,785.03 or 19.9 percent of the total contract value (\$19,170,704).

On June 22, 2005, USAID increased the total obligated amount by \$3,200,000 to \$10,146,024. Project expenditures amounted to 37.6 percent of the new obligated amount.

Table 2. ESP FINANCIAL RESULTS

<i>Category</i>	<i>Amount Budgeted</i>	<i>Cost Incurred as of the end of the Previous Quarter</i>	<i>Costs Incurred this Quarter</i>	<i>Total Costs Incurred To-date</i>	<i>Budget Balance</i>	<i>Percent Expended of Total Budget</i>
CLIN 1	\$ 16,942,142	\$ 1,713,026.80	\$ 1,121,270.34	\$ 3,669,835.24	\$ 13,272,306.76	21.7 %
CLIN 2	\$ 2,228,562	\$ 50,343.97	\$ 34,778.19	\$ 153,949.79	\$ 2,074,612.21	6.9 %
Total	\$ 19,170,704	\$ 1,763,370.77	\$ 1,156,048.53	\$ 3,823,785.03	\$ 15,346,918.97	19.9 %

7. LIST OF ACTIVITIES PLANNED FOR NEXT QUARTER

In addition to on-going activities, additional major activities planned under each area for next quarter are as follows, by component.

7.1. CROSS-CUTTING

- Provide start-up support for a regional development authority for Dalmatia to better position the region for economic growth and EU accession.
- Prepare a MAS-Q program (Metrology, Accreditation, and Standards for Quality) program with an expatriate consultant who will conduct a gap analysis and training trainers.
- Initiate a regulatory reform assessment with FINA, E-Croatia, and other government advisors in the Office of the Prime Minister to explore possible ways that USAID can assist in reducing the costs of doing business for enterprises.

7.2. MARKETING

- Initiate training in tourism product-development and marketing for up to 100 regional tourism bodies, inbound tourism operators, and SMEs to improve destination marketing. – postponed from last quarter
- Design of group consultancy/train the trainers program which will result in increased effectiveness of BSP's. To be launched as a pilot for Snaidero/Trokut investment in Q4/05.

7.3. BUSINESS SERVICES

- Initiate business services demand survey to establish demand among SMEs for different types of services and their willingness to pay for them. Develop linkages with SMEs through this survey for Business Navigator.

- In coordination with the Small Hotels Association, contract a local consulting firm to design and implement services for conversion of unregistered private accommodation owners to small hotels, bed & breakfasts and pensions.
- Initiate capacity building with a minimum of three ESP partners through a association development consulting assignments.
- Develop and pilot four new trainings: Public Relations, Cost Management, Financing SMEs, Segmentation and Positioning; hold 24 workshops/trainings on old and new topics, and train at least 200 people.
- Monitor and support HAMAG's program for certifying consultants

7.4. FINANCIAL SERVICES

- STTA Assistance to HBOR and HAMAG, the government development bank and agency for SMEs, is continuing. ESP is working with HBOR to develop a hybrid financing product, e.g. mezzanine financing. ESP is also helping HBOR with credit scoring and other aspects of credit. HAMAG is being assisted in a number of areas, including improvement of its MIS, developing an expedited loan guarantee approval process and acquisition of the EU/UNDP loan guarantee funds. The Finance team also is assisting Zagrebacka Banka in mining deposit clients for suitable loan candidates; HPB in product development.
- We anticipate that during the quarter ending Dec. 31, 2005 we will devote considerable effort to assisting in the establishment of regional loan guarantee funds. ESP is organizing a workshop on this topic in November 2005, with many municipalities, counties, RDAs, banks and relevant government ministries' officials attending.
- In order to diversify its assistance to the financial sector, the Finance team will continue its efforts to form additional partnerships with financial institutions, e.g. more regional banks and leasing companies.

7.5. INVESTMENT FACILITATION

The major activities under this component in the next quarter include:

- APIU staff training on FDI, October 3 – 7
- Organization of International FDI Conference, Cavtat, October 24
- Presentation on FDI during the roundtable on industrial zones in Croatia, SASO fair in Split, October 27
- Presentation on FDI and labor force at the Croatian labor market conference, Zagreb, November 8, sponsored by HUP and Selecctio, with USAID support
- Participation in the workshop on the economic success of Varaždin, Varazdin, November 16 - 18
- Participation in Nordic Days 2005 – Energy and Environment specialized conference fair, Zagreb, November 21-22 (ESP booth and presentation on investment opportunities in Croatia)

- Presentation on FDI to the British-Croatian Business Network (BCBN), Zagreb, November 24
- CIPO Alliance training on how to pitch for FDI, communication, presentation and negotiation skills, Split, November 29 – December 2
- 1 day study tour for Zadar officials to the Istrian Development Agency (IDA), December 9
- 2nd round of site visits with Soritz (investor) to Dalmatia region, October 14-16
- Follow up on the year one projects in the pipeline
- Expand FDI project portfolio
- Create linkages with additional bi-lateral investment promotion institution

ANNEX A: LIST OF REPORTS & DELIVERABLES

ESP's cumulative list is presented in Table 3.

Table 3: ESP'S DELIVERABLES AND REPORTS

Title	Author	Date
Work Plans		
First Annual Work Plan (October 04- September 05)	Roger Manring (Nathan staff)	11/05/04
Quarterly Reports		
Quarterly Matrix/Report, October- December 04	Paola Lang, DAI staff	
Quarterly Matrix/Report, January – March 05	Paola Lang, DAI staff	
Quarterly Matrix/Report, April – June 05	Paola Lang, DAI staff	
Quarterly Matrix/Report, July - September 05	Jim Winkler, DAI staff and Aleksandra Andrakovic, ESP staff	
Monthly Reports		
October 04	Charles Conconi, Nathan staff	
November 04	Paola Lang, DAI staff	
December 04	Paola Lang, DAI staff	
January 05	Paola Lang, DAI staff	
February 05	Paola Lang, DAI staff	
March 05	Paola Lang, DAI staff	
April 05	Paola Lang, DAI staff	
June 05	Paola Lang, DAI staff	
July 05	Jim Winkler, DAI staff	
August 05	Jim Winkler, DAI staff	
September 05	Jim Winkler, DAI staff	
Consultant Reports		
M&E Plan and Operating Manual	William Millsap, Social Impact Consultant (later revised by Paola Lang)	12/29/05 (7/20/05)
IT Systems Manual	Sani	01/14/05
HAMAG Certified Consultant Program: Training Materials, Operating/procedural Manual and Final Report	Paul Moran, DAI consultant	12/25/05
Institutional Upgrade of HAMAG – Technical Assistance with Assumption of the UNDP/EU Guarantee Fund: Initial Report and Action Plan	Mary Miller, DAI staff (STTA)	05/12/05
Survey on Corporate Governance	Economic Institute (STTA)	06/20/95

Tourism Market Study	Alan Saffery, Nathan consultant	05/03/05
Institutional Upgrade of HAMAG – Technical Assistance with Assumption of the UNDP/EU Guarantee Fund: Interim Report	Mary Miller, DAI staff (STTA)	5/12/05
HAMAG Voucher Program: Operational Manual and Start-Up Materials	Regionalni centar za razvoj d.o.o.	March 2005
Benefits of Registering Informal Accommodations	Dalmaconsult d.o.o.	09/12/05
Hybrid Financing Product	Bryce Khadabux	Pending
FDI Benchmarking	P.J. Daly Paola Lang	Pending
ESP Work Products		
Credit Scoring Model (VABA)	Tocher Mitchell, DAI staff	1/25/05
Deposit Mining	Tocher Mitchell, DAI staff	1/25/05
Guidelines on Local Guarantee Schemes	Tocher Mitchell, DAI staff	1/31/05
List of Business Service Providers	Darije Josic, ESP staff	1/26/05
Strategy Paper: Loan Products	Tocher Mitchell, DAI staff	3/1/05
Strategy Paper: Credit Enhancements	Tocher Mitchell, DAI staff	3/1/05
Briefing to Companies Exhibiting at ANUGA	Michelle Morgan, Nathan staff	4/1/05
Spring 05 Training Program Guidelines	Marko Slunjski	4/1/05
Credit Scoring Model for SME Start-Ups	Tocher Mitchell, DAI staff	5/5/05
Credit Scoring Manual	Tocher Mitchell, DAI staff	5/27/05
Annual Report of the Association of Small and Family-Run Hotels	Tatjana Horvath, ESP intern	7/12/05
Product Offerings for ESP Partners	Paola Lang, DAI staff	7/12/05
Cost-Shared Consultancies through the AMC: Final Reports		
Gumi-Implex	Ružica Marušić	10/11/05
Požgaj d.o.o.		November 2005
Argus d.o.o.	Optimus d.o.o.	10/20/05

Training Courses		
AMC: EU Accession	AMC consultant	
ESP/Deloitte: Operations Management	Igor Šaravanja	4/1/05
ESP: Strategic Planning	Zdravko Kuzmic	4/1/05
ESP: Packing and Labeling	Michelle Morgan, Dean Vranic	4/1/05
ESP: EU Accession Grants	Nenad Kocmar, Karlo Culo	4/1/05
ESP: Buyer Agent Orientation Training	Robert Delemarre, Ron Wherry	4/1/05
ESP/MicroGrupa: Market Positioning	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	5/9/05
ESP/MicroGrupa: Market Segmentation	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	5/9/05
ESP/MicroGrupa: Cost Accounting	Marko Slunjski, ESP staff	April 2005
ESP/MicroGrupa: Employee Incentives	Glenn Surabian, Nathan staff, Darije Josic, ESP staff	April 2005
ESP/PBZ: Foreign Exchange Risk Management	PBZ staff	April 2005
ESP: Company Diagnostics	Glenn Surabian, Nathan staff	August 2005
ESP: How to Interview a Client	Tocher Mitchell, Ivan Pilepic	June 2005
ESP: Credit Scoring	Tocher Mitchell, Ivan Pilepic	August 2005